



CORPORATE HEADQUARTERS:  
4317 NE THURSTON WAY  
VANCOUVER, WA 98662  
360-284-4700 360-280-2075 FAX

March 12, 1996

VIA FAX

Richard M. Rollman  
GABROY, ROLLMAN & BOSSE, P.C.  
2195 East River Road, Suite 201  
Tucson, AZ 85718-6586

Michael F. Brown, City Manager  
CITY OF TUCSON  
255 West Alameda  
Tucson, AZ 85701

Re: GST Tucson Lightwave v. City of Tucson in light of the  
Telecommunications Act of 1996, and proposal to resolve the parties'  
differences

Gentlemen:

I've recently come on board as GST Telecom, Inc.'s General Counsel, and have been charged with amicably trying to resolve the parties' dispute in the above-reference lawsuit, which is now before the Arizona Court of Appeals. I understand the parties have engaged in vigorously contested litigation, but there comes a time when the parties should look at matters from both sides and transcend their differences. I respectfully suggest that such time has arrived.

Viewing the dispute at its most elemental level, I understand that GST Tucson Lightwave, Inc. believed it negotiated a non-exclusive, city-wide license requiring a monthly payment equal to two per cent (2%) of GST's gross Tucson-based revenue, but that the City views the license area as more narrowly circumscribed. Significantly, U S West pays no franchise fee whatsoever.

I further understand that the City has offered GST a city-wide license/franchise identical to the same terms and conditions previously extended to Brooks Fiber Properties of Tucson, Inc. (Brooks) and American Communication Services of Pima County, Inc. (ACSI), which are both subject to a quarterly payment equal to five and one-half per cent (5.5%) of the licensee's quarterly gross revenues within the City's corporate limits.

Exhibit B

GST Telecom, Inc. is a subsidiary of GST Telecommunications, Inc., which trades on the American Stock Exchange under the symbol GST.

Riverside • San Bernardino • Ontario • Rialto • City of Industry • Monterey Park  
Los Angeles • Palm Springs • Victorville • Tucson • Hawaii • Maui  
Mexico • Oahu • Albuquerque • San Francisco Bay Area

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Additionally, the Brooks and ACSI agreements require that the franchisee expressly waive any and all objections to the reasonableness or legality of any franchise provision, as well as provide for renegotiation "in the event that any future legislation shall affect the ability of the City to enforce any of the material terms" of these franchise agreements.

For your information, GST has given careful consideration to accepting the City's offer, and, but for the recently enacted Telecommunications Act of 1996 (Act), would be inclined to accept it without qualification. That is, the Act expressly mandates that State and local government authorities both manage the public rights-of-way and establish fair and reasonable compensation from telecommunications providers "on a competitively neutral and nondiscriminatory basis." See the Act at Section 253(c). For your convenience, I have attached a copy of Section 253 in its entirety.

More compellingly, apart from establishing a non-waivable right to non-discriminatory access to public rights-of-way, Section 253(c) also engenders federal question jurisdiction before the U.S. District Court. (Note, for purposes of review and enforcement, Section 253(d) reserves exclusive jurisdiction to the Federal Communications Commission for violations of Sections 253(a) and (b) only. Discrimination under Section 253(c) amounts to a separate and distinct violation of federal law, which thereby triggers federal question jurisdiction in the U.S. District Court.)

To be sure, in allowing U S West to pay no franchise fee and leaving GST with no alternative other than a take-it-or-leave-it offer at five and one-half per cent (5.5%), the City stands in overt violation of the Act.

While it would not--as a matter of law and public policy--be bound by any franchise term or condition that purports to waive the City's violation of the Act--that is, illegal contract terms and provisions are not enforceable--GST does not look forward to more litigation to vindicate its legal rights.

Thus, to resolve the parties' differences, GST proposes (1) to immediately accept the so-called Competitive Telecommunications License /Franchise the City has previously extended to Brooks and ACSI and (2) to drop its appeal, each party to bear its own costs and fees, so long as (3) the City agrees to achieve compliance with Section 253(c) within a reasonable time frame--say 60 to 90 days. To achieve such compliance, the City must adjust its franchise rate for GST, Brooks, ACSI, and U S West, so that all telecommunications providers doing business in Tucson pay the same franchise rate. Additionally, the City must subject U S West to substantially the same license/franchise terms and conditions imposed on the other competitive telecommunications companies doing business in Tucson. If the City should fail to achieve such compliance within the agreed upon time frame, then GST would still have the option to seek relief from the U.S. District Court.

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GST views this proposal as a win-win outcome for everyone. GST moves on and gets down to business and effective competition, and the City increases its revenue by bringing U S West into compliance with the Act.

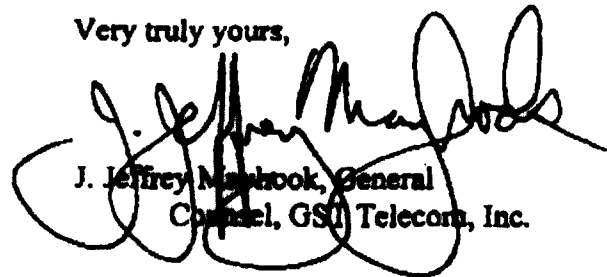
To facilitate this process, we respectfully request that the City respond to this offer by Monday, March 18, 1996. If the City does not respond, we will consider the proposal rejected, and have no apparent recourse other than to seek relief from the U.S. District Court.

Still, GST offers this proposal in the spirit of a compromise settlement to resolve the current litigation and to avoid further legal proceedings. GST's president, Earl Kamsky, moreover, has asked me to convey his regards and to emphasize that we look forward to working with the City and achieving a prosperous relationship.

To achieve that end, I urge you to contact me at your earliest convenience so we can put this matter behind us as expeditiously as possible.

Thank you.

Very truly yours,



J. Jeffrey Markhook, General  
Counsel, GST Telecom, Inc.

cc: Earl Kamsky  
Eric Nelson  
Si Schorr

filing the statement to cover the costs of approving and filing such agreement or statement.

"(i) **AVAILABILITY TO OTHER TELECOMMUNICATIONS CARRIERS.**—A local exchange carrier shall make available any interconnection, service, or network element provided under an agreement approved under this section to which it is a party to any other requesting telecommunications carrier upon the same terms and conditions as those provided in the agreement.

"(j) **DEFINITION OF INCUMBENT LOCAL EXCHANGE CARRIER.**—For purposes of this section, the term 'incumbent local exchange carrier' has the meaning provided in section 251(h).

**"SEC. 252. REMOVAL OF BARRIERS TO ENTRY.**

"(a) **IN GENERAL.**—No State or local statute or regulation, or other State or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service.

"(b) **STATE REGULATORY AUTHORITY.**—Nothing in this section shall affect the ability of a State to impose, on a competitively neutral basis and consistent with section 254, requirements necessary to preserve and advance universal service, protect the public safety and welfare, ensure the continued quality of telecommunications services, and safeguard the rights of consumers.

"(c) **STATE AND LOCAL GOVERNMENT AUTHORITY.**—Nothing in this section affects the authority of a State or local government to manage the public rights-of-way or to require fair and reasonable compensation from telecommunications providers, on a competitively neutral and nondiscriminatory basis, for use of public rights-of-way on a nondiscriminatory basis, if the compensation required is publicly disclosed by such government.

"(d) **PREEMPTION.**—If, after notice and an opportunity for public comment, the Commission determines that a State or local government has permitted or imposed any statute, regulation, or legal requirement that violates subsection (a) or (b), the Commission shall preempt the enforcement of such statute, regulation, or legal requirement to the extent necessary to correct such violation or inconsistency.

"(e) **COMMERCIAL MOBILE SERVICE PROVIDERS.**—Nothing in this section shall affect the application of section 332(c)(3) to commercial mobile service providers.

"(f) **RURAL MARKETS.**—It shall not be a violation of this section for a State to require a telecommunications carrier that seeks to provide telephone exchange service or exchange access in a service area served by a rural telephone company to meet the requirements in section 214(e)(1) for designation as an eligible telecommunications carrier for that area before being permitted to provide such service. This subsection shall not apply—

"(1) to a service area served by a rural telephone company that has obtained an exemption, suspension, or modification of section 251(c)(4) that effectively prevents a competitor from meeting the requirements of section 214(e)(1); and

"(2) to a provider of commercial mobile services.



CORPORATE HEADQUARTERS:  
4317 NE THURSTON WAY  
VANCOUVER, WA 98662  
360-264-4700 360-260-2075 FAX

April 10, 1996

VIA FAX

Bradford Detrick, Deputy  
City Attorney  
CITY OF TUCSON  
255 West Alameda  
Tucson, AZ 85701

Richard M. Rollman  
GABROY, ROLLMAN & BOSSE, P.C.  
2195 East River Road, Suite 201  
Tucson, AZ 85718-6586

Re: GST Tucson Lightwave, Inc. v. City of Tucson

Gentlemen:

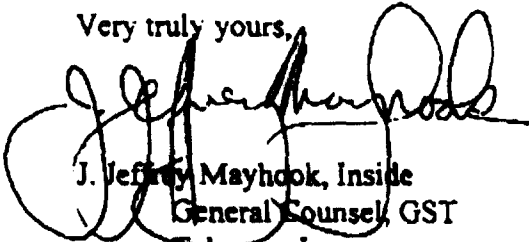
GST Tucson Lightwave, Inc. (GST) hereby proposes to settle the above-referenced matter in accordance with the following terms:

- (1) With the exception noted below at item (2), GST will accept franchise terms and conditions identical to Brooks Fiber and ACSI;
- (2) However, while accepting the Brooks/ACSI franchise terms and conditions, GST expressly reserves the right to later assert any and all rights and privileges it may have under the federal Telecommunications Act of 1996, including, but not limited to, the right to pursue every available legal recourse arising under the Act in any administrative or judicial forum.

Exhibit C

This offer remains open for seven days from the date hereof.

Very truly yours,



J. Jeffrey Mayhook, Inside  
General Counsel, GST  
Telecom, Inc.

cc: Si Schorr

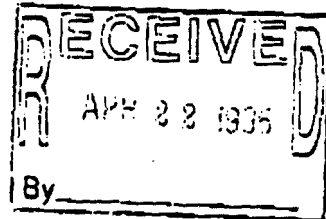
LAW OFFICES OF  
GABROY, ROLLMAN & BOSSÉ, P. C.

2185 E. RIVER ROAD, SUITE 201  
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STEVEN L. BOSSÉ  
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LYLE D. ALDRIDGE  
RONNA L. FICKBOMM  
RICHARD A. BROWN

TELEPHONE  
(520) 577-1300  
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(520) 577-0717

April 19, 1996



J. Jeffrey Mayhook, General Counsel  
GST TELECOM, INC.  
4317 NE Thurston Way  
Vancouver, Washington 96662

RE: GST Tucson Lightwave v. City of Tucson

Dear Jeff:

This is in response to your settlement proposal of April 10, 1996. The condition attached to your settlement proposal would provide a more favorable franchise to GST than that provided to Brooks Fiber and ACSI. Accordingly, the offer must be rejected by the City of Tucson.

Sincerely,

GABROY, ROLLMAN & BOSSÉ, P.C.

A handwritten signature in dark ink, appearing to read "R. Rollman".

Richard M. Rollman

RMR/sb

cc: Bradford C. Detrick, Esq.